



Testimony of

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Regarding

Housing Affordability and Availability

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Good afternoon, Madam Chairman and members of the Subcommittee. My name is Michael Rubinger. I am President and Chief Executive Officer of Local Initiatives Support Corporation (LISC). I appreciate the opportunity share our perspective on affordable housing needs.

How LISC Helps Communities Develop

LISC helps neighbors build whole communities. In 21 years, LISC and its affiliates have raised from the private sector and provided \$4 billion to 2,200 nonprofit low-income community development corporations (CDCs). These CDCs have used our funds to attract an additional \$7 billion. This combined \$11 billion investment has produced over 110,000 affordable homes and 14 million square feet of commercial and industrial space, 40,000 jobs, and numerous childcare facilities, charter schools, youth recreation programs, crime and security initiatives and many other programs. Although LISC's work with CDCs is funded by over 2,000 private sources, federal participation is essential to all of the work we support.

Rehabilitating dilapidated apartment buildings, increasing homeownership, building a new supermarket, and opening a childcare center are typical steps towards restoring a healthy and economically viable community. In many low-income areas, CDCs are the primary engines of revitalization. CDCs form working partnerships with both the private and public sectors. By blending a pragmatic vision with community accountability and business discipline, CDCs have conclusively proven that sound investments – both public and private – produce tangible and sustainable results for communities and their residents.

Faith-based organizations are among the CDCs we support. Since 1980, LISC and its affiliates have provided almost \$500 million to faith-based community developers. This amount has directly generated \$1.5 billion in investments, helping more than 220 community faith-based groups develop approximately 19,000 homes and apartments and build 1.2 million square feet of commercial and industrial space.

The Affordable Housing Challenge

Ironically, the hot economy is contributing to a housing crisis by driving up rents and house prices out of reach. The housing crisis weakens families and communities,

contributes to traffic congestion and air pollution, and makes it hard for growing businesses to find and keep employees.

In spite of the robust economy of the last few years the housing crisis for many low-income urban and rural residents has worsened.

- According to the Center for Housing Policy, a nonprofit research affiliate of the National Housing Conference, 15 million American families – one in seven – have critical housing needs. The problem has spread beyond the elderly, the disabled and the unemployed, and now affects 3.5 million moderate-income families earning at wages equivalent to at least one full-time job at the minimum wage.
- The dwindling supply of affordable housing is a major part of the problem. HUD's most recent study of worst case housing needs documents the loss of 1.14 million homes affordable to very low-income renters without assistance over just the two last years for which data are available, 1997 to 1999.

Stable neighborhoods and affordable housing are two sides of the same coin. If we fail to preserve the neighborhoods that already house so many low-income families, we will lose far more housing to community deterioration than we can hope to replace through government subsidies. Housing is likewise crucial to stable low-income communities. Many families with severe housing needs live there. Housing production contributes to community revitalization by removing blight, stabilizing the population base, attracting reinvestment and restoring weak markets. And affordable home ownership builds family wealth and contributes to a healthy income mix.

In communities across the country, some 3,600 CDCs have rehabilitated and built more than 550,000 homes and created 247,000 private sector jobs.¹ The result is that for the first time in a generation, we're not just talking about a successful project here or a renovated block there, but the transformation of entire neighborhoods. And not the easy neighborhoods either, but ones that, in many cases, had been given up for dead. The impact is clearly demonstrable physical revitalization. Moreover, crime is down, employment is up, property values are up, and investment is up. In community after community, there's a demonstrable improvement in the quality of life. This is a powerful story of hope and accomplishment.

Unfortunately, this remarkable progress is at risk of stalling because of a growing hyper-competition for scarce federal resources. In most communities until the mid-1990s, public resources were sufficient to support most sound housing development proposals. Today, however, most good proposals cannot be funded because federal resources are so greatly oversubscribed. If it is encouraging that so many more CDCs and their partners are now ready and able to rebuild housing and whole

¹ National Congress for Community Economic Development, *Coming of Age: Trends and Achievements of Community-Based Development Organizations*, Washington DC, 1999.

neighborhoods, it is doubly frustrating for them to miss opportunities to do so because of insufficient resources.

A balanced federal housing policy should include production, preservation, tenant assistance, and stabilizing the low-income communities where the private market serves so many low-income families. However, the allocation of funds within the HUD budget is not balanced. HUD now spends about \$19.5 billion each year to support existing housing, but invests only about \$5.9 billion each year to expand the supply of affordable housing.² We do not support reducing subsidies for existing housing, but it is crucial to increase the supply of affordable housing. Simply adding more demand side subsidies like vouchers will only drive rents higher in already tight markets.

Two Excellent Federal Housing Production Programs

Two excellent federal programs have driven affordable housing production for the past 10 –15 years: the Low Income Housing Tax Credit and the HOME program. Both of these resources have proven highly effective over an extended period, and can be a sound foundation for federal housing and community development policy well into the future. Both are flexible block grants administered by states (and localities in the case of HOME). Both involve CDCs and other nonprofit and for-profit developers and private financing. Both subject housing sponsors to the strict discipline of the marketplace. Private investors and lenders would lose money if the housing is poorly developed or managed, and that has been a very rare occurrence.

Last year Congress expanded the volume of Low Income Housing Tax Credits by 40% over two years to stimulate more private equity investment for low-income rental housing production. It is important to recognize, however, that this increase is insufficient to make up for inflation since the Housing Credit volume cap was previously set in 1986. In light of both the growing housing shortage and the overwhelming bipartisan consensus that Housing Credit is both effective and efficient, we urge Congress to expand the volume of Housing Credits further.

Moreover, most Housing Credit deals – and virtually every one in low-income communities – require additional public funds to fill financing gaps. The HOME program is the primary resource for filling those financing gaps. It is important that

² Based on FY 2001 appropriations. For purposes of this analysis, subsidies for existing housing include the housing certificate fund (\$13.923 billion), public housing operating subsidies (\$3.242 billion), maintenance and repair funds under the public housing capital fund (estimated at \$2.25 billion), and the tenant based rental assistance component (\$62 million) of HOME. Investments in expanding the affordable housing supply through new construction and substantial rehabilitation include: HOME (\$1.7 billion), public housing capital funds (substantial rehabilitation and new construction activities estimated at \$750 million), HOPE VI (\$565 million), housing funds under Community Development Block Grants (estimated at \$1.8 billion), a portion of homeless assistance grants (estimated at \$226 million), Section 202 elderly housing (\$679 million), Section 811 housing for the disabled (\$217 million), and the Indian Housing Loan Guarantee Fund (\$6 million).

HOME funding expand along with Housing Credits to ensure that the overall housing production system can expand smoothly.

HOME is a proven, flexible and extremely cost-effective housing production program. HOME works effectively in both urban and rural communities.³

- HOME now finances over 80,000 affordable rental and ownership homes annually. Since its inception in 1992, 359,849 homes have been completed, with almost 200,000 more underway.
- Each HOME dollar attracts \$2.29 in other funds. The average HOME funding per unit is a cost-efficient \$15,125.
- HOME is a block grant that works through states and localities. It is flexible in meeting local needs for both homeownership and rental housing. HOME may be used in the construction of new housing as well as the rehabilitation and preservation of existing housing. HOME serves families, the elderly, the disabled and the homeless.
- HOME reaches genuinely low-income families and communities. For rental housing production, 42% of HOME funds reach households with incomes below 30% of area median, and 82% help those with incomes below 50%. For homeowner assisted housing, 31% of HOME funds serve households with incomes below 30%, and 69% serve households with incomes below 50%. Of assisted homebuyers, 30% have incomes below 50% of median.
- Both nonprofit and for-profit developers are eager participants in HOME. Since the inception of the HOME program, 19% of allocated funds have been reserved for non-profit community housing organizations (CHDOs).

Additional Federal Tools

While HOME and Housing Credits work very well, there are limits to what they can do.

- .. First, it is very difficult to build rental housing for extremely low-income tenants without some kind of rental subsidy. The General Accounting Office reports that about 39% of the tenants in Housing Credit properties have incomes below 30% of the area median. [Source: GAO/GGD/RCED-97-55, page 136.] Similarly, HUD data show that about 42% of the tenants in rental housing financed by HOME funds have extremely low-incomes. These tenants cannot generally afford to pay enough rent to support the cost of operating a property. Rental subsidies – both project-based and portable – have helped Housing Credit and HOME financed properties to

³ HOME data from HUD's HOME fund report of 1/31/01.

reach extremely low-income tenants. Such subsidies are seldom available in conjunction with housing production.

- We appreciate that Congress last year enacted legislation to encourage project-based Section 8 rental assistance vouchers to promote mixed-income housing. However, HUD's interim guidance prohibits the use of this tool in neighborhoods with at least 20% poverty. It is precisely these communities that need new and rehabilitated mixed-income housing as part of a community revitalization program. We urge the Subcommittee to direct HUD to reverse this policy.
- We are aware that Congress has sometimes been reluctant to fund additional rental subsidies because the cost of annual renewals can be high. The Section 202 elderly housing program may offer a useful model for minimizing the cost of project-based subsidies. The annual cost of the rent subsidy component of Section 202 is only about \$3,000, compared with about \$5,800 for a Section 8 voucher. The difference is that Section 202 assumes that the government will pay the full cost of building the housing. The rent subsidy only has to cover the difference between the cost of operating the housing and what a tenant can pay. Section 8 vouchers start with a higher payment standard – fair market rent – so they must cover a larger affordability gap. Congress may wish to consider providing a project-based subsidy following the Section 202 structure, to facilitate the production of mixed-income family housing as well as housing for homeless and other special needs populations. In most cases a majority of the property would have no rental subsidies and would have to compete in the local housing market. HOME and Housing Credits would have to cover the full development cost of the targeted units, but we believe this approach holds great promise.

- Second, the Bush Administration has proposed a new single family housing tax credit, the "Renewing the Dream" tax credit, as part its \$1.7 trillion tax cut bill. This new tax credit would attract nearly \$2 billion of private investment annually for the construction and rehabilitation of homes in low-income communities for sale to low-income buyers. LISC strongly supports this new tax credit and urges the Congress to include it in any tax package enacted this year. The Renewing the Dream tax credit would make a huge difference for low-income communities and for low-income families. Expanding homeownership is a critical element of most communities' revitalization strategies. However, the existing housing stock often cannot meet the needs of homebuyers. Substantial rehabilitation or new construction are required, but large subsidies are necessary to bridge the gap between development costs and the price that the market can support and low-income buyers can afford. Existing programs like HOME cannot fill such large financing gaps. The Renewing the Dream tax credit can solve this problem, just as the Low Income Housing Tax Credit did for rental housing production.

Conclusion

The worsening housing shortage is a serious side effect of economic prosperity, but we are in a good position to meet the challenge. For too many years we as a nation lacked confidence in our housing and community development programs. Now we know how to build housing while rebuilding whole communities and lives at the same time. For too many years federal budget deficits compelled our nation to defer these needed investments. As President George H.W. Bush used to say, we had “more will than wallet.” Now that the budget is in surplus and our wallet is full, let us not lose the will to leave no child, no family, and no community behind.